



QUARTERLY PERFORMANCE REPORT

Contractor: CARANA Corp./Nathan Associates Inc.

Contract # AFP-I-00-03-00020-00 Delivery Order 800

Reporting Period: January 1 to March 31, 2005

Section I - CONTRACTOR'S REPORT

A. Narrative:

1) Contract Delivery Order Final Objective: The Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity is to contribute towards USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-liberalization partners and stakeholders. It has two broad objectives. It will contribute to:

- continuing policy liberalization in the Philippines, and
- increasing the degree of competition in the Philippine economy.

The contractor is responsible for the following major task areas:

- 1) policy analysis and technical assistance;
- 2) administration of grants to NGOs and nongovernmental research institutions;
- 3) administration of the Special Activities Fund (SAF);
- 4) SO2 monitoring, assessment, reporting; and
- 5) public information and consultations.

The 3-year Contract Delivery Order authorized a total level-of-effort of 7,504 workdays, which may be adjusted by written approval of the CTO subject to the delivery order ceiling price of US\$11,333,829. The Delivery Order was signed on August 23, 2004, and expires on August 22, 2007. The remaining balance of the delivery order, as of March 31, 2005, was \$10,536,446.81.

2) Expected Results: Performance monitoring will be based on assessment of results obtained compared to those projected in the implementation work plans. The two stated EMERGE objectives, i.e., increase liberalization and increase competition, are outside the manageable control of the EMERGE contractor. These can only be produced by the people of the Philippines, including government entities and the private sector. Through EMERGE activities, however, the contractor can contribute significantly to understanding and appreciation by

stakeholders, policy makers and interested parties of the costs to the economy (e.g., employment and foreign exchange earnings foregone) from policies or practices that allow economic rents or of monopoly profits from cartel-like arrangements. Thus, performance criteria for annually-approved implementation work plans will concentrate on the effectiveness of the contractor in selecting, designing, implementing and disseminating work designed to increase policy maker, stakeholder and public awareness.

The contractor is to develop specific performance indicators that are linked to policy actions actually taken in the course of the Activity. These indicators will be included in each implementation work plan, with targets specific to each work plan.

3) (a) Current Core Activities: The contract defines (in subsection 4.2.) the major task areas listed in paragraph 1) above. During this initial, start-up quarter, the contract, the project technical proposal and the EMERGE 2004 Work Plan described the following activities to be undertaken within each of the major task areas, in addition to start-up administrative tasks:

Start-up Administrative Tasks

The project has been applying for SEC registration as a resident representative of Nathan Associates Inc. This registration is required for opening a project bank account and for getting other required permits and identification papers. This process was nearing completion at the end of 2004.

The documents required for USAID approval of the procurement of office computer equipment and a project vehicle were completed before the end of 2004 and were expected to be approved for procurement during this reporting period.

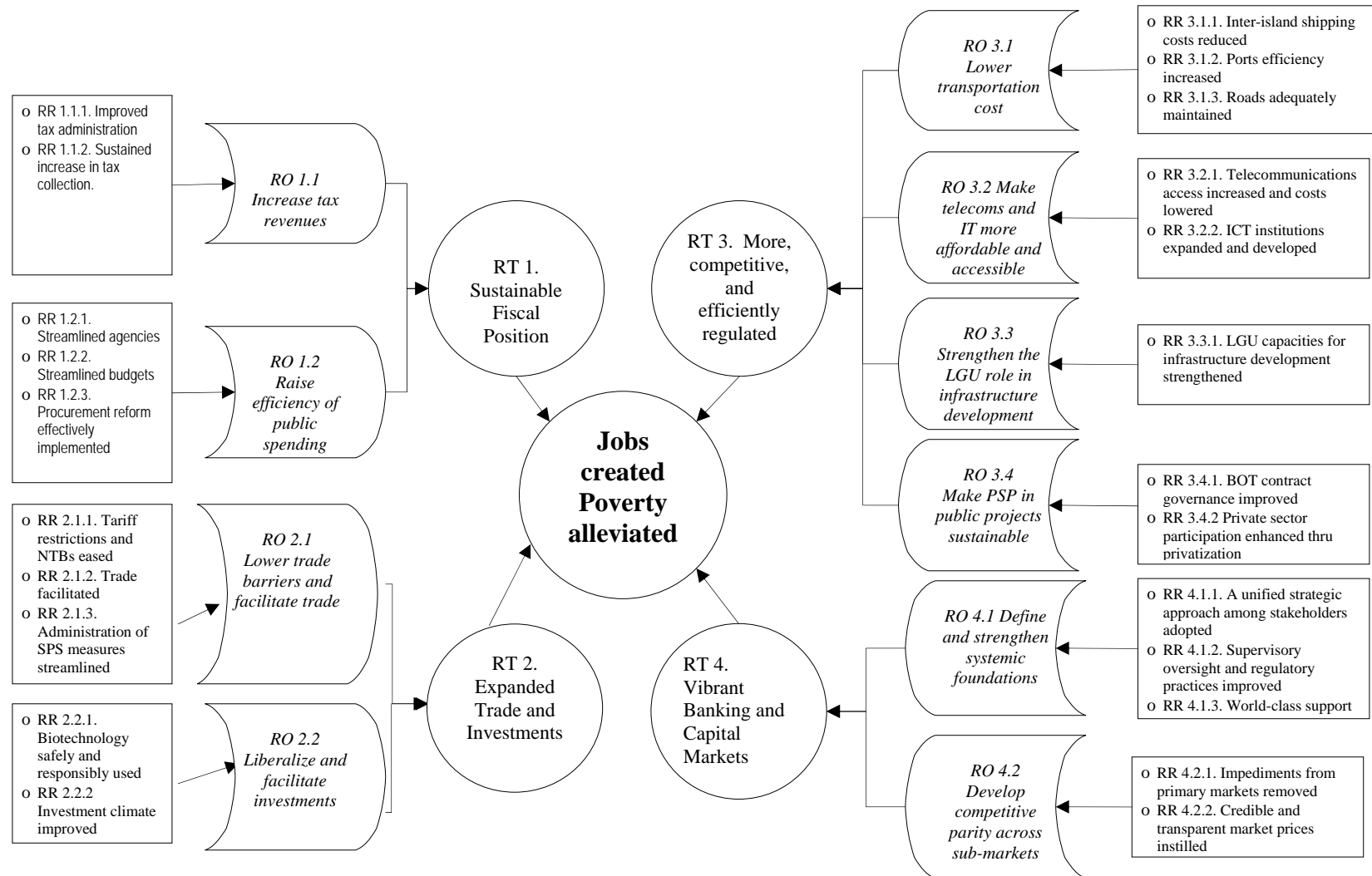
The project has been in the process of reserving and registering a domain name for its use. As soon as this completed, project e-mail addresses will be assigned to project personnel and a project website will be set up and maintained. Along with this, plans are set for a management information system (MIS) to be installed. During the next quarter, the MIS should be functional.

A draft 2005 Annual Work Plan was nearly complete by December 31, 2004, but was refined during the next two weeks and submitted to USAID for internal review on January 17, 2005, following which it was to be submitted to the PAC for review.

TASK 1 - Policy Analysis and Technical Assistance (TA)

The 2005 Work Plan identifies four major economic policy reform themes or purposes that contribute to the overall goals of more productive jobs created and poverty reduced: 1) a sustainable fiscal position, 2) expanded trade and investment, 3) more competitive and efficiently regulated infrastructure, and 4) vibrant banking and capital markets. It identifies ten EMERGE reform objectives to help the Government of the Republic of the Philippines (GRP) achieve these purposes, and 24 reform results to achieve the ten EMERGE reform objectives. Forty specific tasks are then proposed as EMERGE-supported activities to help the GRP and the Philippine civil society obtain some of those 24 results.

Figure1. EMERGE Results Framework 2004-2007



The EMERGE Results Framework is presented in Figure 1. The specific tasks proposed for EMERGE support in the 2005 Work Plan, and the reform objectives and results they target, are listed below, together with the progress expected during this reporting period as discussed in the previous quarterly report, if any. We were not planning to work on all of these tasks during this reporting period, and those that are to be started later are noted in Section 4, Performance during the Quarter.

Reform Objective 1.1 Increase tax revenues

Reform Result 1.1.1. Improved tax administration

Task 1.1.1.1 Improved One Time Tax Transactions (ONETT) System

In the first quarter of 2005, the EMERGE team plans to issue a purchase order to the most technically competent consultant team from among those invited by the Commissioner to propose how the ONETT system on real property can be improved.

Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives

Task 1.1.1.3 Improved administration systems of selected tax measures

Reform Result 1.1.2. Sustained increase in tax collection

Task 1.1.2.1 Individual Performance Management System at the BIR Installed

Reform Objective 1.2 Raise the efficiency of public spending

Reform Result 1.2.1. Streamlined agencies

Task 1.2.1.1 Selected Agencies' Re-structuring Plans Improved

In the first quarter of 2005, the EMERGE team planned to execute a grant agreement with the Development Academy of the Philippines (DAP) for the purpose of carrying out this TA task. The work was expected to last throughout the year 2005.

Reform Result 1.2.2. Streamlined budgets

Task 1.2.2.1 Capacity for the Implementation of the Organizational Performance Indicator Framework (OPIF)

Upgraded Task 1.2.2.2 Performance Assessment Rating Tool of the OMB/USG Adapted

The Undersecretary also requested EMERGE to provide U.S. consultants to help the DBM learn about the Performance Assessment and Review Tool (PART) used by the US Government Office of Management and Budget (OMB) to assess the performance of Departments. This task is to be acted upon in the first half of 2005.

Task 1.2.2.3 Working Model to Predict Cash Inflows Installed at DBM

Reform Result 1.2.3. Procurement reform implemented

Task 1.2.3.1 Customized Agency Manuals and Generic Procurement Manuals Aligned

Reform Objective 2.1 Lower trade barriers and facilitate trade

Reform Result 2.1.2. Trade facilitated

Task 2.1.2.1 Customs Audit Performance and Capability Assessment

This team's scope of work (SOW), membership and salary levels were approved by USAID on December 21, 2004, and the team started to work the next day.

Task 2.1.2.2 Customs Risk Management System Improved

Reform Result 2.1.3. Administration of SPS measures streamlined

Task 2.1.3.1 Department of Agriculture (DA)'s SPS Administration Systems Improved

The EMERGE team was to act on this task in the first quarter of 2005.

Reform Objective 2.2 Liberalize and Facilitate Investments

Reform Result 2.2.1 Agriculture biotechnology safely and responsibly used

Task 2.2.1.1 Field Testing Protocols for Transgenic Crops and Principles Underlying the Regulation of GMO-Containing Processed Foods Developed

USAID approval was obtained on December 21, 2004, and the consultants were hired the next day.

Task 2.2.1.2 Improved Insect Resistance Management Strategy Adopted and Key Policy and Regulatory Gaps Addressed

Task 2.2.1.3 The Filipinos properly informed and educated about modern biotechnology

Reform Result 2.2.2 Investment climate improved

Task 2.2.2.1 Improving the Investment Climate

On December 2, 2004, it was agreed that the technical assessment of the investment climate would apply supply chain and transaction cost analyses, be results driven, and be conducted in real-time, as information may be discovered in tranches. The coconut industry was selected identified to be the first to undergo the diagnostic study, which was to be initiated in the first quarter of 2005. A meeting early in January with Governor Perez was planned to select other priority industries. One candidate is the ICT-enabled services sector.

Reform Result 2.2.3 Investment facilitated

Task 2.2.3.1 Strategic Development Initiatives

Reform Objective 3.1 Lower transportation cost

Reform Result 3.1.1 Inter-island shipping cost reduced

Task 3.1.1.1 The nautical highway developed and access to it institutionalized

The task was postponed in view of the leave of absence of the Development Bank of the Philippine's (DBP's) point person in this effort, Mar Enecio, who took a personal leave of absence in the last quarter of 2004.

Task 3.1.1.2 DBP lending policies and guidelines on private sector access to infrastructure funds streamlined

Task 3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project

Reform Result 3.1.3 Roads adequately maintained

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

This task was put on hold due to some confusion over who was the Executive Director of the Road Board Secretariat. The government appointed Mr. Puno to the position currently held by Ms. Belleza, who was reluctant to leave. Presidential Adviser Encarnacion and EMERGE agreed to postpone the TA until after the issue was resolved.

Reform Objective 3.2 Make telecommunications and IT more affordable and accessible

Reform Result 3.2.1 Telecommunications access increased and costs lowered

Task 3.2.1.1 Laws and regulations supportive of ICT sector development drafted and e-Government strategy developed

Approval documents were submitted to USAID on December 17. With that approval, work in this area was to be initiated and completed during the next quarter.

Task 3.2.1.2 Competition policy for ICT sector formulated and implemented

Reform Result 3.2.2. ICT institutions expanded and developed

Task 3.2.2.1 Strategy and plan to expand the use of VOIP and Internet technology in the regions developed

Reform Objective 3.3 Strengthen the LGU Role in Infrastructure Development

Reform Result 3.3.1 LGU capacities for infrastructure development strengthened

Task 3.3.1.1 Identification of barriers to LGU access to financing for local infrastructure

Reform Objective 3.4 Make Private Sector Participation (PSP) in Public Projects Sustainable

Reform Result 3.4.1 BOT Contract Governance Improved

Task 3.4.1.1 Options developed to improve build-operate-transfer (BOT) contract governance

In the current reporting period the team was to plan this task with the BOI Governor and initiate the work.

Reform Result 3.4.2 Private sector participation enhanced thru privatization

Task 3.4.2.1 Privatization of state-owned enterprises

Reform Objective 4.1 Define and strengthen systemic foundations

Reform Result 4.1.1 A unified strategic approach among stakeholders adopted

Task 4.1.1.1 Technical Assessment of saving patterns and behavior

This assessment was identified as a priority task by the Capital Market Development Council (CMDC). In order to derive full benefits from the policy and legislative implications of its findings, it was expected that this study would be completed no later than the 2nd quarter of 2005.

Task 4.1.1.2 Defining the Philippine Capital Market Reform Agenda

Task 4.1.1.3 Policy Review of Financial Sector Taxation

Reform Result 4.1.2 Supervisory oversight and regulatory practices improved

Task 4.1.2.1 Risk-Based Capital Framework for SEC-Covered Institutions/Agents

Task 4.1.2.2 Financial Risk Management Framework for PDIC

Task 4.1.2.3 Regulatory Coordination & Interface between BSP and PDIC

Task 4.1.2.4 Liquidation of Closed Banks

Task 4.1.2.5 A New Approach & Legal Framework for Corporate Recovery Act

Reform Result 4.1.3 World-class support infrastructure developed

Task 4.1.3.1 Risk Management Information System for the SEC

Task 4.1.3.2 Moving Towards a Centralized, Image-based Check Clearing System

Task 4.1.3.3 National Payments and Settlements Blueprint

Reform Objective 4.2 Develop competitive parity across sub-markets

Reform Result 4.2.1. Impediments from the primary markets removed

Task 4.2.1.1 Proposed Measures on the Unit Investment Trusts and Its Impact on Mutual Funds Identified

Task 4.2.1.2 Technical Simulations & Assistance to Support the PERA Initiative

Reform Result 4.2.2. Credible and transparent market prices instilled

Task 4.2.2.1 Assistance to the Philippine Dealing and Exchange Corporation

TASK 2 - Administration of Grants to NGOs and Nongovernmental Research Institutions

With CTO approval, EMERGE resources are to be used to award grants to NGOs and non-governmental research institutions for activities in EMERGE technical areas. Through the Institutional Grant for Policy Development Program (IGPD), a companion activity of EMERGE, USAID/Philippines is embarking on an initiative to develop local capacity in economic liberalization policy analysis and formulation within NGOs and universities. EMERGE grant-making activities are to be complementary to and closely coordinated with these IGPD grantees of the Targeted Intervention for Economic Reform and Governance (TIERG) Program.

A full-time grants and special activities fund (SAF) manager was to be joining the project in mid-February 2005. She was to formulate guidelines for EMERGE grant-making activity for CTO approval and request the necessary waiver for a contractor to issue grants. Plans to extend grants were developed and were to be proposed to USAID for approval after the waiver was granted. Three of the proposed grantees include the Development Academy of the Philippines, International Support for the Acquisition of Agri-Biotechnology Association (ISAAA) and the Biotechnology Coalition of the Philippines, as well as the TIERG partners: the Economic Policy Reform and Advocacy (EPRA) consortium of Ateneo De Manila University and the Partnership and Advocacy for Competitiveness and Trade (PACT) of the DeLa Salle University/Angela King Institute (DLSU/AKI)/PhilExport consortium.

TASK 3 - Administration of the Special Activities Fund (SAF)

We were expected to identify activities that reinforce the EMERGE policy agenda, but were unanticipated in annual work plans and thus outside the funding negotiated for any given plan. SAF resources within our contract are to preserve EMERGE flexibility to respond to these opportunities. Through SAF we are to be able to fund technical assistance and studies for SO2 objectives and other SOs; conferences, workshops, and short-term training, often as a cost-share; study tours and long-term training; commodity procurements for partner organizations; and procurement of skills and services from individuals and institutions. The USAID CTO is responsible for approving use of SAF monies, within the PAC's SAF operating guidelines.

The TIERG Policy Advisor Committee (PAC), chaired by Socio-Economic Secretary and National Economic Development Authority (NEDA) Director General Romulo L. Neri, approved three additional areas for EMERGE assistance that did not appear in the 2004 work plan but supported its overall objectives: mining, land reclamation, and reforestation. For mining and land reclamation, the EMERGE team worked with Secretary Neri to conceptualize the TA and to identify qualified candidates. The documents required for approval were prepared and submitted to USAID and these consultants were expected to start work in early 2005. EMERGE also worked with Chairman Victor Corpus of the Natural Resource Development Council (NRDC) to determine what TA could be helpful in the proposed reforestation program.

TASK 4 - SO2 Monitoring, Assessment, Reporting

EMERGE is responsible for consistently monitoring and assessing progress in meeting USAID SO2 performance indicators. We are to regularly collect and analyze data on indicators and make formal semi-annual appraisals of progress in meeting SO2 targets. As the USAID SO2 team requires, we are also to prepare special reports, case studies, success stories, presentations and audio-visual materials to better analyze and communicate the state of reform issues in the Policy Agenda of USAID/Philippines-EMERGE. SO2 monitoring tasks include understanding the SO2 team's requirements and monitoring system; organizing our program for routine SO2 performance indicator monitoring; and responding to regular and special requests for SO2 performance analyses.

TASK 5 - Public Information and Consultations

Our public information activities have two purposes: to support partners and counterparts with their own information dissemination and public advocacy and to establish EMERGE's transparency. To support partners we are to assist with media strategies and materials and could help organize technical conferences on reform issues. To support partners and to establish transparency, we were to set up an EMERGE website soon after contract start-up to inform the reform community and the general public about project goals and activities and current reform issues.

3) (b) Current Buy-Ins: The EMERGE Delivery Order does not authorize or contemplate buy-ins, and there are no other delivery orders thereunder outstanding or contemplated.

3) (c) Subcontracting Activities During the Quarter: No subcontracts were initiated during this reporting period, except for the basic Nathan Associates Inc. implementing subcontract with the CARANA Corporation, the prime contractor for this SEGIR/Privatization delivery order.

4) Performance During the Quarter:

Start-up Administrative Tasks

The project registered with the Social Security System (SSS), Home Development Mutual Fund (HMDF), PhilHealth and the Bureau of Internal Revenue (BIR) following the receipt of the Certificate of Registration from the Securities and Exchange Commission (SEC). The BIR issued the Tax Identification Number for the project, which was used as a supporting document to apply for the Mayor's Permit to Operate. The project is now awaiting the release of this permit. EMERGE office likewise obtained a Barangay Clearance.

The supplier of the proposed MIS software for the project, Interlink, agreed to install an evaluation copy of the system to determine if it would meet the requirements of EMERGE. The program is now undergoing revisions to suit the needs of the users.

The project registered its Internet domain, <emerge.ph>, with DotPH while the EMERGE web site is being developed.

While awaiting the approval of the IT equipment purchase, the evaluation copy of the Lotus Notes was configured in order to activate the @emerge.ph email address and make it available for the registered users.

EMERGE received USAID approval for the Mining, Land Reclamation and BIR-Performance Management System Teams. The team members signed their employment agreements with the project together with consultants for DBM and another BIR activity.

The CVAI proposal for the Purchase Order to implement the *Sanitary and Phytosanitary Measures Administration* for the Department of Agriculture was submitted to USAID for approval.

The Biotechnology and Customs Post Entry Audit Teams submitted their final reports for their contracts with EMERGE, which ended in February. The two teams also gave exit debriefings to USAID to report on the results of their activities.

The project received two requests for funding assistance. One was submitted by the Department of Finance (DOF) to send five participants to the Philippine Development Forum on March 7-8, 2005 in Davao City. The Securities and Exchange Commission also (SEC) requested funding for the participation of Commissioner Jesus Enrique Martinez at the US SEC Annual Internal Institute for Securities Market Development from April 18 to 28 in Washington, DC, and the Industry Visitation Program from May 2 to 4, 2005. Both requests were approved by USAID. EMERGE worked on the logistical requirements for these two activities.

TASK 1 - Policy Analysis and Technical Assistance

Task 1.1.1.1 Improved One Time Tax Transactions (ONETT) System

In carrying out this task, EMERGE is working closely with the BIR and the Foundation for Revenue Enhancement (FReE). FReE and Commissioner have agreed to cooperate towards improving tax collection at the BIR. On behalf of the BIR and EMERGE, FReE issued in February 2005 a request for proposal to five firms. Four firms indicated their intent to submit a bid. The BIR, EMERGE and FReE held two pre-bidding conferences at the BIR.

Next quarter, the EMERGE plans to submit to USAID the terms of reference of the ONETT, select the competitive bidder, issue purchase order and start this project.

Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives

After securing the approval of USAID CTO to hire a Tax Economist, who will work closely with Commissioner Parayno in shepherding the tax administration reform program of the BIR, the EMERGE team hired Mr. Francis Vicente. Mr. Vicente will help the Commissioner prioritize and provide structure to the various reform initiatives for improving tax administration as found in the *BIR Blueprint for Development Towards 2010*. He will also estimate the revenue effects of proposed reforms. The consultant's engagement started on March 1, 2005, and is expected to end on December 31, 2005.

Task 1.1.1.3 Improved administration systems of selected tax measures

The EMERGE fiscal team had several meetings with the AIM-Hills Governance Center to discuss how to improve the collection of (a) the document stamp tax (DST) on mandatory third party liability insurance (which vehicle owners must purchase each year when they register their vehicles with the Land Transportation Office); and (b) common carrier tax that is collected from public land transportation companies. Both EMERGE and the Center had met with BIR Commissioner Parayno, with the DOTC Assistant Secretary for the LTO A. Lontoc, Land Transportation Franchise and Regulatory Board (LTFRB) Chairperson E. Bautista, and Insurance Commissioner B. Santos. This project aims to increase tax collection and facilitate procedures of the yearly registration of private vehicles at the LTO and public transportation companies at the LTFRB. A TOR will be drafted during the next quarter.

Task 1.1.2.1 Individual Performance Management System (PMS) at the BIR Installed

The EMERGE project mobilized the BIR PMS team in March. Commissioner Parayno and Deputy Commissioner Henares of the BIR are working on a system to measure performance objectively. This is an important task in light of the enactment of the Performance Attrition Act involving the Bureau of Internal Revenue and the Bureau of Customs. The BIR PMS team is expected to commence work in April 2005 and to finish by the end of October 2005.

The EMERGE team will also help the DOF improve its capability to set tax collection targets for 2006, in response to Finance Secretary Cesar V. Purisima's request. At the BIR, the Fiscal Team Leader will help the LTS cascade the LTS tax collection target of PHP 255 billion in 2005 to sub-units of the service. The EMERGE team received additional requests from Finance Undersecretary Emmanuel P. Bonoan: to help his office draft the implementing rules and regulations for the Performance Attrition Act and to review previous BIR tax rulings for consistency with the law. In the next quarter, the project will seek approval from USAID to respond to these related TA requests.

Task 1.2.1.1 Selected Agencies' Re-structuring Plans Improved

The engagement of the Development Academy of DAP to help DBM carry out this task was delayed due to the delay in the issuance of the IRR for Executive Order 366. With its issuance anticipated in May 2005, EMERGE plans to proceed with this task in the second quarter of 2005. Its initial phase is expected to last for 6 months.

Task 1.2.2.1 Capacity for the Implementation of the Organizational Performance Indicator Framework (OPIF) Upgraded

No work was done for this task in this quarter. The EMERGE team received instructions from DBM Undersecretary Pascua that this work was no longer needed. Instead, the DBM would like EMERGE to conduct some training programs to help improve the appreciation, understanding and capability of Congressional staff (particularly those of the Congressional Planning and Budget Office, the Senate Economic Planning Office, the Appropriations Committee secretariat, and the Economic Affairs Committee) in the implementation of the OPIF. In the next quarter, the EMERGE team will finalize plans for this training program with Undersecretary Pascua.

Task 1.2.2.2 Performance Assessment Rating Tool of the OMB/USG Adapted

Work for this task will be started in the next quarter.

Task 1.2.2.3 Working Model to Predict Cash Inflows Installed at DBM

The EMERGE team hired Mr. Jem Armovit to 1) work on a model to predict cash inflows and 2) help draft the Fiscal Responsibility Bill (FRB) for DBM. The former is needed to allow DBM to issue notices of cash allotments quarterly instead of monthly. Mr. Armovit is assigned to draft the provisions in the FRB for a debt cap. Mr. Armovit's engagement started on March 16, 2005, and will end on September 15, 2005.

Task 1.2.3.1 Customized Agency Manuals and Generic Procurement Manuals Aligned

The World Bank is assisting DBM draft procurement manuals tailored for selected agencies. Undersecretary Pascua has asked EMERGE to help it align the customized manuals with the standard procurement manual and the Government Procurement Reform Law. This work should start in the third quarter of this year, after the World Bank consultants complete their assignment.

Task 2.1.2.1 Customs Audit Performance and Capability Assessment

The consultant team, composed of Alex Gaticales, Agaton Uvero and Bebe Madamba, completed their work in February as planned. The team presented their final report at a USAID debriefing on March 30, having shared it and their recommendations earlier with the new Commissioner of Customs Bert Lina. The Commissioner appreciated the report and asked EMERGE to help his office implement the recommendations. (Thus the performance milestones of this task should be achieved in the near future—that the counterpart agency accepts and implements at least some of the consultant's recommendations.) Ramon Clarete reported on highlights of the report during a meeting with NEDA DG Secretary Neri and Department of Finance (DOF) Secretary Purisima on March 31.

Task 2.1.2.2 Customs Risk Management System Improved

The proposed TA to improve the risk management system at the BOC was discussed with Commissioner Bert Lina and his predecessor Commissioner George Jereos. Both expressed support and appreciation for the TA. Components of the TA include designing and establishing a risk

management organization, enhancing the selectivity system, strengthening of the capability of the bureau's post-entry audit group (PEAG) and expanding and institutionalizing the Super Green Lane. A scope of work has been prepared for each component.

Task 2.1.3.1 Department of Agriculture (DA)'s SPS Administration Systems Improved

The TA was requested by DA Undersecretary Serrano to streamline the administration of sanitary and phyto-sanitary (SPS) measures at the DA. The components of the TA include business process and institutional analysis and improvement, enabling by Department orders/circulars the proposed changes, and undertaking consultations and communication activities to build up ownership for the changes. A purchase order has been prepared for Cesar Virata and Associates to implement the TA and has been submitted for USAID approval.

Task 2.2.1.1 Field Testing Protocols for Transgenic Crops and Principles Underlying the Regulation of GMO-Containing Processed Foods Developed

The TA to the Bureau of Food and Drugs (BFAD) and the Department of Agriculture (DA) was completed as planned during this quarter. With the TA, BFAD drafted its own guidelines on the labeling of GMO-containing processed food. The draft guidelines have been endorsed for the approval of the Executive Committee of the Department of Health. With stakeholders from the public and private sectors, the TA also helped the DA conduct a preliminary but comprehensive review of its field-testing protocols. Revisions were introduced, particularly on the technical feasibility of current conventions. (Thus the performance milestones of this task have been achieved—the acceptance and implementation of some of the recommendations of EMERGE consultants towards improving the commercialization guidelines for processed food derived from biotechnology and a more coherent policy framework for bio-safety assessments and field testing protocols.)

Task 2.2.1.2 Improved Insect Resistance Management Strategy Adopted and Key Policy and Regulatory Gaps Addressed

EMERGE received a request for a grant from the International Support for the Acquisition of Agri-biotechnology Association (ISAAA), who has an on-going program with the DA and BFAD. The request involves TA in policy and regulatory development and institutional capacity building. The scope of work and budget for a grant or a purchase order has been prepared.

Task 2.2.1.3 The Filipinos properly informed and educated about modern biotechnology

EMERGE received a request for grant from the Biotechnology Coalition of the Philippines (BCP). The request involves TA to carry out information, education and communication (IEC) activities to improve public awareness, knowledge and appreciation of modern biotechnology. The scope of work and budget for a grant or a purchase order has been prepared.

Task 2.2.2.1 Improving the Investment Climate

Draft terms of reference for the conduct of a diagnostic study on coconut-based products has been prepared in consultation with Johnny Endaya of the Board of Investments.

Task 2.2.3.1 Strategic Development Initiatives

By the end this reporting period the EMERGE consultant was almost through with this assignment, assessing possible strategic development initiatives in the mining industry, infrastructure financing, agricultural research and reforestation, as well as on crafting a Muslim Management System based

on "The Roots of Japanese Management," linking with academic institutions in Muslim Mindanao. This work will be completed in April 2005.

Task 3.1.1.1 The nautical highway developed and access to it institutionalized

Meetings yielded many important details for proposed TA to DBP on RORO shipping and RRTS. The TA can be provided in at least two broad areas: (a) provision of information to various stakeholders, e.g., local government units, private investors, and other sectors about the advantages of RORO shipping, the need for inter-LGU cooperation, the need to build capacity among provincial planners to deal with RORO shipping, the risks and constraints faced by private investors in RORO shipping, the need to dovetail government efforts to promote RORO shipping with the emerging interest of the private sector to professionalize logistics management, among others; and (b) introduction of various policy and institutional reforms to support the development of RRTS and RORO shipping. A draft SOW on RORO shipping is being worked out in coordination with DBP.

Task 3.1.1.2 DBP lending policies and guidelines on private sector access to infrastructure funds streamlined EMERGE expects to start work on this task in the 3rd quarter of 2005, since current DBP priority is on the promotion of the RRTS (Task 3.1.1.1).

Task 3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project

NEDA sought EMERGE assistance on supporting the RRTS. A SOW to help reduce shipping costs was drafted with the following components:

- Draft bill (on the RORO Law) that would institutionalize the reform objectives of the President's Executive Order 170 in January 2003;
- Draft Executive Order for the conversion of private non-commercial ports into commercial ports under the Road-RORO Terminal System (RRTS); and
- Review and drafting of PPA AO re Guidelines on the development, construction and operation of private ports under the RRTS.

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

The Road Board directors approved a draft SOW for TA. The executive director of the Road Board secretariat sent a letter of request to EMERGE. EMERGE finished negotiations with the proposed consultant firm, C Virata and Associates, and is waiting final approval from USAID.

Task 3.2.1.1 Laws and regulations supportive of ICT sector development drafted and e-Government strategy developed

Draft rules on voice over Internet protocol (VoIP) as a value added service were finalized with assistance from EMERGE. The NTC issued its draft rules for VoIP in a press conference held last Wednesday, March 20, 2005. Under the draft rules, VoIP is classified as a value-added service, paving the way for increased competition in the telecommunications sector. A public hearing on the draft rules is scheduled for May 3, 2005.

Task 3.2.1.2 Competition policy for ICT sector formulated and implemented

EMERGE started discussions with NTC on its request for TA to develop a competition policy framework for the telecommunications sector. NTC is convinced that a competition policy framework will enable it to make the market more contestable and to ensure that no firm would exercise market power to the prejudice of consumer welfare. TOR for the TA has been drafted.

Task 3.2.2.1 Strategy and plan to expand the use of VOIP and Internet technology in the regions developed

During this reporting period, the Privatization Advisor conducted extensive research and interviews regarding Voice over Internet Protocol (VoIP). A draft report was developed and submitted to the government counterpart, the National Economic Development Authority (NEDA), for comment and review. In addition, the consultant drafted a recommended strategy entitled, “*Congressional Initiative in Linking the Global Filipino Family*,” to increase and promote the use of VoIP in the regions. This work is to be completed in the next quarter.

EMERGE has also had some discussions with CICT on the possibility of using PhilPost for VoIP and other services and to provide some technical advice on how to set up community e-centers.

Task 3.3.1.1 Identification of barriers to LGU access to financing for local infrastructure

Former DOF Secretary Amatong expressed the need to assist the Municipal Finance Corporation (MFC) in this area. However, there is no closure yet in this area because of the designation of a new DOF Secretary (Purisima) who has yet to be apprised of the role and functions of MFC and the possible assistance from EMERGE. It was decided to hold the proposed TA in abeyance pending the designation of the president of the Corporation.

Task 3.4.1.1 Options developed to improve build-operate-transfer (BOT) contract governance

EMERGE and Ateneo de Manila/EPRA supported the Board of Investments (BOI) in conducting a public hearing on proposed amendments to the IRR of the BOT Law. EMERGE provided comments on the proposed amendments during meetings with the BOI and EPRA. There was also an initial discussion about TA to BOI to help draft amendments to the BOT law, after the public hearing on the IRR amendments called attention to the need to amend the law itself to take care of issues that could not be addressed by mere amendment of the IRR. The proposed TA on BOT Law amendments will be pursued in the second quarter, after the amended IRR is finalized. An earlier agreement among BOI, EMERGE and AKI was to conduct workshops and round table discussions during the first quarter of 2005, with, among others, the BOI-BOT committee, EMERGE/AKI consultants, the PCCI and the American Chamber of Commerce to identify provisions of the BOT Law that need to be amended. AKI will spearhead the organization of the round table discussion. The workshops will be conducted in the next quarter.

Task 3.4.2.1 Privatization of state-owned enterprises

NEDA DG/Secretary Neri has requested some technical advice on how to proceed with several potential privatization activities, and EMERGE expects to provide some TA in the next quarter.

Task 4.1.1.1 Technical Assessment of saving patterns and behavior

USAID/OEDG suggested that this task be held in abeyance until further review. The Bangko Sentral ng Pilipinas is requesting TA on consumer saving/finance issues, which may be incorporated into this task, subject to concurrence of USAID.

Task 4.1.1.2 Defining the Philippine Capital Market Reform Agenda

Central Bank Governor Rafael Buenaventura sent a letter to EMERGE requesting TA for this task. A separate letter was sent by the Executive Director of the Bankers Association of the Philippines concurring with the draft SOW. We expected to start this task in May 2005.

Task 4.1.1.3 Policy Review of Financial Sector Taxation

The Capital Market Development Committee (the main counterpart) has pre-selected the Zambrano & Gruba Law Office to undertake this policy review. Documentation is in the final stages. We expect to start this task in May 2005.

Task 4.1.2.1 Risk-Based Capital Framework for SEC-Covered Institutions/Agents

This task is planned for Q3 of 2005. Inputs have been requested from the counterpart (SEC) so that the SOW can be finalized by end-Q2.

Task 4.1.2.2 Financial Risk Management Framework for PDIC

This task is planned for the 2nd half of 2005. Discussions are being held with the counterpart (PDIC) on the preparation of a SOW and the sequencing of assistance.

Task 4.1.2.3 Regulatory Coordination & Interface between BSP and PDIC

This task is planned for the 2nd half of 2005. Discussions are being held with the counterparts on the preparation of a SOW and the sequencing of assistance.

Task 4.1.2.4 Liquidation of Closed Banks

This task is planned for the 2nd half of 2005. Discussions are being held with the counterparts on the preparation of a SOW and the sequencing of assistance.

Task 4.1.2.5 A New Approach & Legal Framework for Corporate Recovery Act

The Steering Committee is currently reconciling the Moreno and Angara versions of the proposed bills, in the context of their individual provisions and in comparison with international best practice. We are still awaiting confirmation from SEC Comm. Josie Poblador on the type and extent of TA that the committee may need.

Task 4.1.3.1 Risk Management Information System for the SEC

The counterpart (the Market Regulation Department of SEC) focused attention to its requests for assistance on the AWACS license renewal and participation in the Spring Institute training program of the US SEC. With the completion of the AWACS license renewal in end-March and the participation of Comm. Martinez in the training at the Spring Institute in mid-April, discussions on the Risk Management Information System are expected to resume by May.

Task 4.1.3.2 Moving Towards a Centralized, Image-based Check Clearing System

The counterpart has requested more time for formalize their requested TA. The vision and costing for the entire project has been completed and a decision is expected by the 3rd quarter as to what TA they may request.

Task 4.1.3.3 National Payments and Settlements Blueprint

The counterparts agreed to request this task after the completion of task 4.1.1.2. Initial drafts of a SOW have been prepared with the counterpart and a request for approval will be submitted no later than January 2006.

Task 4.2.1.1 Proposed Measures on the Unit Investment Trusts and Its Impact on Mutual Funds Identified

The counterpart (CMDComm) would like to review the output of the Financial Sector Taxation study (task 4.1.1.3) first, in order to structure this task.

Task 4.2.1.2 Technical Simulations & Assistance to Support the PERA Initiative

The counterpart (CMDComm) has been constrained by the announcement of the Department of Finance that they (DoF) would not support the PERA initiative until the fiscal situation stabilizes. Given the natural link with the development of the capital market (task 4.1.1.2) and its tax framework (task 4.1.1.3), this task is expected to be mobilized by Q4 of 2005.

Task 4.2.2.1 Assistance to the Philippine Dealing and Exchange Corporation

The request for approval for the Public Market consultant has been forwarded to USAID. If approved, mobilization is expected to commence immediately. The TA for a Surveillance consultant will be structured in the next few weeks.

TASK 2 - Administration of Grants to NGOs and Nongovernmental Research Institutions

The Grants and Special Activities Fund (SAF) Manager joined EMERGE on February 18, 2005. She developed the draft guidelines for the EMERGE grants program which was submitted to the USAID CTO for the processing of a waiver and approval to allow EMERGE to award grants to the NGOs and non-governmental research institutions.

As of end of March, EMERGE had received requests for grants from the International Support for the Acquisition of Agri-Biotechnology Association (ISAAA), Biotechnology Coalition of the Philippines (BCP), and from PACT for technical assistance on a reforestation strategy and cost sharing on meetings with PCCI. Due to the immediate need to start implementation of the biotech activities in the grant requests of ISAAA and BCP, EMERGE has decided to issue Purchase Orders instead of grants to these two activities. EMERGE will consider funding requests for small funding assistance for workshops or meetings under the SAF.

TASK 3 - Administration of the Special Activities Fund (SAF)

By end of March, several activities previously identified in the last quarter have been proposed to USAID for SAF funding. These activities involved assistance to counterparts through funding of technical assistance teams for mining, land reclamation, performance measurement in the BIR, diagnostic study of the sanitary and phytosanitary measures of food export standards, and for the development of a system whereby tax declarations can secure bank loans. In addition, some small funding assistance for attendance to workshops and meetings were proposed for SAF funding, namely, attendance of private sector representatives to the Davao Development Forum and the renewal of the AWACS license for SEC. Subsequent activities for SAF funding will be identified in the course of EMERGE implementation to respond to intermittent TA needs of the counterparts on matters relating to the EMERGE policy reform agenda.

TASK 4 - SO2 Monitoring, Assessment, Reporting

Draft and establish a TIERG performance monitoring plan (PMP): The SO2 monitoring and evaluation (M&E) manager drafted, sent and discussed the contents of a PMP template to his M&E counterparts at EPRA, PACT and ROLE to begin the task of drafting the TIERG PMP. He also drafted the EMERGE project-level indicator data sheets and discussed their contents with the EMERGE team leaders. He will hereafter draft the EMERGE PMP for discussion with the rest of EMERGE team members.

Create a database of SO2 indicators: The SO2 monitoring manager developed a database for the old and new SO2 performance indicators. He submitted EMERGE's inputs to the USAID SO2 indicator data sheets upon the request of the TIERG CTO. He also began developing an inventory of GOP research portals maintaining economic indicators related to the USAID SO2 indicators.

Review and present amendments to the SO2 SOW templates: The SO2 monitoring manager began reviewing the EMERGE SOW templates to study the possibility of incorporating therein performance indicators, performance targets and causality statements. This is in line with USAID's managing for results agenda. It is meant to assist future management and evaluation exercises in understanding the value that individual activities and contracts add to the achievement of results.

TASK 5 - Public Information and Consultations

During the first quarter of 2005, the Public Information Manager has coordinated with the DLSU consortium regarding its planned seminar on advocacy for their member organizations. This seminar is intended to further sharpen the skills of the advocacy officers of DLSU consortium member organization in developing annual policy agenda and programs and public and government relations activities to support their local and national programs of actions related to trade and investments.

The Public Information Manager has also closely coordinated with the IT manager regarding the production and design of the proposed EMERGE website. The content of the website has been completed. The design and other technical specification are being ironed out by the IT manager before uploading in the web

The Public Information Manager has also completed the content and design of the EMERGE Brochure. The technical specifications for the actual printing of the brochure has also been finished. The brochure is currently being routed to EMERGE management for comments before seeking USAID approval and final printing.

5) Statement of Work: No change in the contract statement of work is contemplated at this time. However, contract modification #1 was executed on February 17, 2005, which removed the restriction on the use of SAF for activities appearing in the annual work plans. SAF can now be used either for activities in the work plans or "to facilitate implementation of selected sub-activities...complementary and critical to promoting the EMERGE policy agenda."

B. Administrative Information

Since the Project Contract is a performance based, rather than a level-of-effort based, contract, administrative information is not required or reported.

Atch: 1) Quarterly Expenditure Report

Section II - PROJECT OFFICER'S COMMENTS

Project Officer/Office Symbol _____ **DATE:** _____

Section III - CONTRACT OFFICER'S COMMENTS

Contract Officer/Office Symbol _____ **DATE:** _____



USAID
FROM THE AMERICAN PEOPLE



MEMORANDUM

DATE: April 29, 2005

TO: Ms. Maria Teresa Robielos, EMERGE CTO, USAID/OEDG

FROM: Dr. C. Stuart Callison, Chief of Party, EMERGE Project

REF: Contract # AFP-1-00-00-03-00020 Delivery Order 800

SUBJECT: EMERGE Project Quarterly Report – January 1 to March 31, 2005

Attached for your review and approval is the EMERGE Project's 2nd Quarterly Report, covering the period January 1 to March 31, 2005, in compliance with Section 7.1.3 of the referenced contract.

Atch: a/s